



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

JUNE 4, 1982

B-207382

The Honorable Gerald P. Carmen  
Administrator of General Services



118522

Dear Mr. Carmen:

Subject: GSA Needs To Improve the Management of Its  
New Item Introductory Schedule Program  
(GAO/PLRD-82-82)

The New Item Introductory Schedule (NIIS) program provides contractors a way of introducing new and improved items into the Federal Supply System, which annually provides Federal agencies with about \$3 billion in supplies and services. NIIS sales in fiscal year 1980 totaled \$16.4 million, and 200 approved items were included in the April 1981 publication for user agencies.

New item applications from manufacturers or vendors are screened by the General Services Administration's (GSA's) regional business service centers, and final processing of applications is done by the Federal Supply Service (FSS). FSS may reject new item applications submitted by the business service centers. If approved, FSS awards a contract to the manufacturer or vendor to supply the item and agrees to publish it in the schedule of approved items.

We reviewed the NIIS program to determine whether it is effectively introducing new and improved items into the Federal Supply System. We found the NIIS program has several weaknesses, which if corrected, would greatly improve the program. Details of our findings are summarized below and are discussed in detail in the enclosure.

NIIS MANAGEMENT AND  
PROGRAM OPERATIONS

The NIIS program and its management are fragmented between several offices, and GSA has not assigned overall responsibility to any particular office. Poor management has contributed to the following problems:

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- Records and reports are inaccurate.
- Decisions on new item applications are not documented.
- The approval and screening process lacks adequate criteria and is untimely.
- The NIIS program is not considered an integral part of FSS's other supply programs.

NIIS's records and reports are inadequate for assessing the program's effectiveness and providing feedback to the contractors on FSS's decisions on new item applications. This occurs because logs and contract files are inaccurate and incomplete and item control numbers are used improperly.

The basis for the decision to cancel or retain items in the NIIS program or transfer them to another supply program is not properly documented. We found instances where items without sales were renewed while other items with sales over \$150,000 were canceled. Justification for these decisions were not included in FSS records.

The lack of specific criteria in the screening and approval processes has resulted in inconsistent and untimely decisions on NIIS applications. Most of the new item applications forwarded by the business service centers are subsequently rejected by FSS. The FSS commodity centers apply different criteria when awarding NIIS contracts. In addition, delays have occurred in processing applications and in deciding how to dispose of items remaining in the program over the prescribed 3-year period.

The requirements of other FSS supply programs are not adequately considered when items are approved for the NIIS program or are subsequently transferred to these programs. By considering the requirements of FSS's other supply programs early in the NIIS program, items entering and being retained in the NIIS program could be limited to those that have a good chance of being transferred to other FSS supply programs.

NIIS SCHEDULE OF APPROVED  
ITEMS IS NOT PUBLISHED  
REGULARLY OR UPDATED

Publishing new and improved items in NIIS schedules is the primary means of informing potential customers of item availability. However, during the past 5 years, the schedules were published only once in 1977, 1980, and 1981. We found that the April 1981 schedule did not include 9 of 35 items approved in fiscal year 1980. Furthermore, 16 of the 26 published items

were under contract from 6 to 10 months before they were included in the published schedule. Consequently, all NIIS items are not given the same opportunity to demonstrate their sales potential. In addition, customers are denied the possible benefits from using the items.

#### SALES DATA IS NOT VERIFIED

Contractor reported sales data is the basis for deciding whether an approved item is to be canceled, retained on NIIS, or transferred to one of FSS's other supply programs. Sales data is also a factor in determining the sales price and, in turn, the amount of sales discount or rebate to which the Government is entitled. Currently, NIIS sales are not verified by internal auditors.

In 1977 we reported 1/ that by verifying reported sales under the multiple awards schedule program, FSS could save the Government money. We are not implying that each NIIS contract should be audited. However, we believe sales data submitted by NIIS contractors should be subjected to limited verification.

#### CONCLUSIONS AND RECOMMENDATIONS

The NIIS program has several weaknesses which prevents it from effectively introducing new and improved items into the Federal Supply System. These problems exist throughout the NIIS process, from initial screening of an application until publication in the schedule of approved items. The failure to assign overall program responsibility and poor management has contributed to problems in management control, consistent and timely decisions, and interaction with GSA's other supply programs and offices. These problems affect program effectiveness and have resulted in inconsistent decisions when screening and approving items.

To strengthen the management of the NIIS program and make it an integral part of GSA's supply system, we recommend that you establish a central control point for new item applications within FSS. In conjunction with this, you should direct FSS to establish guidelines which provide specific criteria for screening and processing new item applications and making decisions on approved items, including followup on items which are transferred to other supply programs. The criteria should provide for

--considering the requirements of other FSS supply programs during the approval process,

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1/"Federal Supply Service Not Buying Goods at Lowest Possible Price" (PSAD-77-69, dated March 4, 1977).

- maintaining accurate and complete records for reporting purposes and as a basis for evaluating the effectiveness of the program,
- timely processing of applications and awarding contracts by eliminating duplicative reviews and responding to vendor applications within 90 days, and
- assigning a separate FSS identification number to each NIIS item and providing feedback to the business service centers on the disposition of applications.

You should also direct FSS to

- update the publication of approved items more frequently to provide users with better information on the items available from the NIIS program and
- selectively verify data submitted by NIIS contractors.

#### AGENCY COMMENTS

GSA told us it fully endorses the elimination of fragmented responsibilities concerning new item applications. The agency agreed that revised and expanded policies and procedures are needed to improve the screening and processing of new item applications and the decisionmaking process. GSA stated that it has recently assigned overall responsibility to the Supply Determination Branch and that renewed emphasis and higher priority will be placed on the NIIS program.

GSA further stated that:

- Functional statements for the Supply Determination Branch are being developed. These statements will include the responsibility for evaluating proposals for new items to determine and ensure that the Branch is responsible to customer requirements.
- Formal procedures will be developed to revise and expand the current criteria for approving new items, including those criteria cited in our report.
- Issue dates for the publication of approved items, which will coincide with contract dates, are being established.

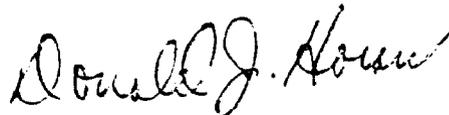
--The GSA audit organization will be requested to verify sales on selected NIIS contractors.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations.

Sincerely yours,



Donald J. Horan  
Director

Enclosure

GSA'S NEW ITEM INTRODUCTORYSCHEDULE PROGRAMBACKGROUND

The New Item Introductory Schedule (NIIS) program was established in the late 1960s to provide contractors a way of introducing new and improved items into the General Services Administration's (GSA's) Federal Supply System. The program is designed to test the demand for items to determine whether they belong in GSA's stock or multiple awards schedule program. The NIIS program is intended to minimize both the Government's and the contractor's cost. A specification or commercial item description does not need to be developed and items are procured noncompetitively.

The number of NIIS contracts and items were 150 and 200, respectively, in April 1981. Most of the 200 items were general products items, such as ceiling fans, wall coverings, and padlocks. Sales in fiscal year 1980, the latest period on available sales data, totaled \$16.4 million. The Federal Supply Service (FSS) estimates that 6 staff years are allocated to the NIIS program. This estimate does not include the time expended at the business service centers. Although the program is small, it is important because it provides access to other FSS programs which annually provide Federal agencies with about \$3 billion in supplies and services.

The processing of new and improved item applications is a key element in the NIIS program. The vendor or manufacturer submits applications to the GSA business service center in its geographical area. The business service center counsels the vendor or manufacturer on preparing the application and other matters. The center is required to screen the application, assign a control number to each application, and forward accepted applications to FSS for approval.

FSS logs in the application and sends it for processing to the appropriate commodity center--general products, tools, furniture, or automotive products. The review process differs among the commodity centers. The general products and automotive centers review their items and then refer them to the New Item Application Review Committee (NIARC) for final approval or disapproval. The tools and furniture centers, however, review and make the final decisions on their items without concurrence from NIARC. The commodity centers use the same procedures when renewing or canceling NIIS items.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the NIIS program's effectiveness by evaluating the (1) adequacy and timeliness of screening and

processing new item applications, (2) consistency of decisions to cancel, renew, or transfer NIIS items to other GSA supply programs, (3) timeliness in publicizing the availability of NIIS items to user agencies, and (4) adequacy of the procedures for verifying contractors' sales data. We conducted our work primarily at FSS, Arlington, Virginia, which operates the NIIS program.

We selected and reviewed files for NIIS items which covered all decisionmaking points in the NIIS program. Because the state of recordkeeping prevented us from selecting a random sample, we used a judgmental sample of 90 items. The sample included 59 of the 226 approved applications in the fiscal year 1980 log, 10 renewed items from the active contracts files, and 21 nonrenewed items from a list of contracts over 3 years old. We reviewed the dates, approval signatures, dispositions, and reasons for dispositions on these items' records to determine the timeliness, completeness and consistency of the decisionmaking. We also reviewed GSA's policies and procedures; draft orders, regulations, and guidelines; studies; contract files; schedules; and other documents related to the NIIS program.

We interviewed officials at FSS and GSA business service centers. We also obtained the views of selected contractors and user agencies and attended a meeting which determined the disposition of applications and approved NIIS items.

Our work was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

NEED TO STRENGTHEN THE MANAGEMENT  
AND IMPROVE THE OPERATION OF THE  
NIIS PROGRAM

One of the weaknesses in the NIIS program is that the program and its management are fragmented between several offices and GSA has not assigned overall responsibility to any particular office. Currently, initial screening is performed by GSA's 12 business service centers, and the FSS commodity centers process the applications and manage the program. Within FSS, the centers are located in different offices. General products, for example, is within FSS's Office of Programs and Requirements, whereas furniture, tools, and automotive products are each a separate entity within FSS. Office supplies are a part of general products for commodity management; however, its contracts office is located in New York. Each business service and commodity center makes independent decisions on NIIS applications and contracts. There is no central oversight of the program.

In December 1980, FSS's Commissioner directed that his Office of Customer and Industry Relations conduct a study of the NIIS program. The study, which was completed in May 1981, concluded that the NIIS program lacked central control and that establishing a central control point would improve the quality of the record-keeping and decisionmaking processes and ensure that standards were uniform. We agree that assigning a central control point would be beneficial. It could provide the means for evaluating the effectiveness of the NIIS program and for determining whether program objectives are being achieved. We believe this change would not require the NIIS program to be located in one office or require any major reorganization within GSA. FSS officials told us that establishing a central control point for NIIS has been indefinitely deferred because of other ongoing plans to reorganize FSS.

Poor management has contributed to the following problems:

- Records and reports are inaccurate.
- Decisions on new item applications are not documented.
- The approval and screening process lacks adequate criteria and is untimely.
- The NIIS program is not considered an integral part of FSS's other supply programs.

Need to establish accurate  
and complete records and reports

NIIS's records and reports are inaccurate, incomplete, and inadequate for assessing the program's effectiveness and providing feedback to the contractors on FSS's decisions on NIIS applications. We attempted to determine the number of NIIS items and contracts as of June 30, 1981. We reviewed the June 1981 publication of approved items, the automated log, and reports from the commodity centers' contract divisions and found each contained different numbers of NIIS items and contracts. The following table shows these differences.

<u>Source</u>	<u>No. of</u>	
	<u>Items</u>	<u>Contracts</u>
New item schedule	200	150
Automated log	135	107
Contract divisions	284	169

These differences are due to problems with the accuracy and completeness of logs and contract files and the use of item control numbers. For example, officials told us that the automated log is inaccurate and outdated because the source data itself is inaccurate and outdated. Also, according to an official, the log is incomplete because it does not include the control number assigned to the contract.

The completeness of individual contract files is also essential for assessing program effectiveness. We could not locate some files, and others were difficult to find because files and file labels were incomplete. For example, we could not find files on 8 of the 59 approved items in our sample, despite the assistance of FSS officials. In another case, we found one file which contained the records on eight items but was identified by only one control number on the file label. Most of the available files contained either the business service center control number or FSS control number, but not both. This makes an evaluation of the program difficult because a cross indexing of the numbers is not available.

Additionally, assigning a single control number to more than one item has resulted in some of the items not receiving contracts and others remaining unjustifiably in the NIIS program. For example, one control number was assigned to 23 items. Eight of the 23 items were approved and should have received contracts but did not because they were placed in the rejection file along with the remaining 15 items which were rejected. As for items remaining unjustifiably on NIIS, we found examples where contractors reported aggregate sales for items assigned the same control number. This has resulted in items with little or no sales remaining in the NIIS program because the sales volume was associated with all the items.

General products officials informed us that, during our review, they implemented informal procedures which require each general product item be assigned a separate identification number. We were told the procedure will be incorporated into a revised GSA order which will cover all items.

Finally, the GSA business service centers' logs did not contain the current status of applications sent to FSS. The logs are used to inform contractors on the status of their applications and to prepare monthly activity reports. We found the centers lacked information on the status of 80 percent of the 226 approved applications reported by NIARC. FSS officials told us the low priority attached to the NIIS program resulted in inadequate feedback to the centers. General products officials told us that they began sending a standard letter to the business service centers in June 1981, informing them on the status of applications. This procedure has not been formally adopted, however, and covers only general products.

Decisions should be documented

Our evaluation of the program's effectiveness was also hampered because decisions were not adequately documented. For example, we found that two items without sales were renewed while two other items in the program for the same length of time and with sales of \$190,000 and \$150,000 were canceled. In these cases, the basis for the decision was not available from FSS records. In addition, items with sales under \$100,000 were recommended for transfer to FSS's other supply programs while items with greater sales were retained in the NIIS program.

Need to improve criteria and timeliness in the screening and approval processes

The lack of specific criteria and failure to comply with existing criteria in the screening and approval processes have resulted in inconsistent and untimely decisions on new item applications. The problems relate to the screening of applications by the business service centers, the processing of applications, and FSS decisions on approved items.

FSS rejected 815 (70 percent) of the applications forwarded by the business service centers in fiscal year 1980. We found instances in the screening process where FSS rejected luxury and personal items which should have been rejected by the centers. FSS agrees that screening criteria at the business service centers should be improved.

The lack of specific criteria for processing the applications and deciding the disposition on approved items has led the commodity centers to develop their own criteria. For example, the tools center awards contracts on items which have sales potential of \$5,000 annually, while the general products center uses \$10,000 and, in some instances, \$25,000 as the basis for its decisions. The unit prices of items were not a factor in establishing these levels.

Additionally, the tools center does not approve items for NIIS if similar items are already in the NIIS program. The other centers, however, approve similar items. Officials in the tools and other centers believed they were complying with the GSA order. In our opinion, the GSA order is not clear on how items, which are similar to those already on NIIS, should be treated. FSS is drafting regulations that address the screening process and the issue of similarity.

As for timely decisions, we found that although the contractor is told the application will normally be processed within 90 days, 15 of the 59 items in our sample exceeded this time limit and 1 application took 11 months to process. To minimize delays in processing NIIS applications, FSS is drafting regulations which would eliminate the contracts divisions and NIARC from the process and require that the applicant be informed within 90 days on FSS's decision.

Additionally, FSS failed to comply with the criteria that items remain in the program no longer than 3 years. In early 1981, FSS identified 21 items which exceeded the 3-year limitation. Some items were in the program up to 9 years. These items remained in the program because the required commercial item descriptions or specifications had not been developed. Eighteen items were subsequently recommended for transfer to other programs. However, because of inadequate recordkeeping, we could not determine if these items were successfully transferred.

#### Need to consider NIIS an integral part of the Federal Supply System

The requirements of other FSS supply programs are not adequately considered when items are approved for the NIIS program or are subsequently transferred to these programs. This results in items being placed in NIIS that will later be unable to gain entry to the Federal Supply System. The GSA order requires FSS to consider the criteria used in the other supply programs and the number of Federal agencies that express an interest in the item.

NIIS officials told us they do not have sufficient information on FSS's other supply programs or the number of users to make this determination when approving NIIS applications. They also told us that they recommend NIIS items for FSS's other supply programs even though they do not know whether the items will be accepted. The FSS official in charge of the multiple awards schedule program told us that he has not approved an NIIS item for this program in the past 6 months. He explained that NIIS items were rejected because they had low sales and multiple users were not identified. One of the decisions we reviewed had been rejected because of the absence of data on the number of users. Program officials told us that they were unaware items were being rejected. They told us that they do not followup on items which they recommend for transfer to FSS's other supply programs.

We found items remained on NIIS beyond the 3-year limitation because the method of supply had not been determined. Three renewed items, two of which were in the NIIS program for over 6 years, were renewed because the method of supply had not been determined. Similarly, three nonrenewed items that had remained

on NIIS beyond the 3-year limitation were finally canceled for this reason.

By considering the requirements of FSS's other supply programs early in the NIIS program, items entering and being retained in the NIIS program could be limited to those that have a good chance of being transferred to other FSS supply programs.

PUBLICIZING NIIS ITEMS  
COULD BE MORE TIMELY

Publishing new and improved items in the schedule of approved items is the primary means of informing potential customers of item availability. Although the contractor can inform potential customers of item availability by mailing brochures, we were told this method is ineffective. Both FSS officials and NIIS contractors believe that inaccuracies in the mailing lists and mailing costs deter contractors from using this alternative.

The schedules of approved items were previously published up to three times annually. However, as the following table shows, during the past 5 years, the schedules were published only once in 1977, 1980, and 1981.

<u>Year</u>	<u>Month</u>	<u>Months between publication</u>
1975	January	3
	May	4
	August	3
1976	January	5
	July	6
	December	5
1977	July	7
1978	January	6
	July	6
1979	February	7
	November	9
1980	May	6
1981	April	11
<u>a/1981</u>	June	2

a/This publication was a correction, not an update, to the April 1981 publication.

NIIS officials informed us that the schedules have been published irregularly and less frequently because of the low priority assigned to the program.

We analyzed 35 items, approved in fiscal year 1980, to determine how many items had been published in the April 1981 schedule. We found that 9 of the 35 items were not published despite the fact 2 of them had received contracts in May and July 1980. Sixteen of the 26 items were under contract from 6 to 10 months before they were published in the schedule. With the less frequent publication of the NIIS schedules and the failure to identify all approved items for publication, all NIIS items are not given the same opportunity to demonstrate their sales potential. In addition, customers are denied the possible benefits from using the items.

#### SALES DATA NEEDS TO BE VERIFIED

Sales data is important to the NIIS program. The amount of sales reported by the contractor is the basis for deciding whether an approved item is to be canceled, retained on NIIS, or transferred to one of FSS's other supply programs. The amount of sales is also a factor in determining the sales price and, in turn, the amount of sales discount or rebate to which the Government is entitled.

NIIS program officials advised us that NIIS sales are not verified by the internal audit staff because of an informal internal policy that limits audits to contracts with annual sales over \$3.5 million. They said NIIS's contracts have not been referred for audit because sales, which sometimes exceed \$100,000 annually, have been too low to qualify.

The NIIS program is similar to FSS's multiple awards schedule program. Both programs rely upon contractors' sales data in negotiating the best price through sales discounts and rebates. Our 1977 report 1/ on the multiple awards schedule program concluded that FSS should verify contractors' sales data because inaccurate and incomplete data was being reported. We found that, by verifying this data, FSS could save the Government money.

We are not implying that each NIIS contract be subjected to sales verification or that all contracts be subjected to the same level of testing. However, we believe that data submitted by NIIS contractors should be subjected to limited verification.

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1/"Federal Supply Service Not Buying Goods at Lowest Possible Price" (PSAD-77-69, dated March 4, 1977).